

Message Text

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ACTION ARA-20

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TAGS: ECON, EFIN, EGEN, AR

SUBJECT: NATIONALIZATION OF FOREIGN BANKING INTERESTS IN ARGENTINA
AND IMPACT FOREIGN INVESTMENT LAW

REF: A. BA 4578, B. STATE 120156, C. BA 4568

1. RESULTS OF DISCUSSIONS BETWEEN AMB LODGE, DCM KREBS AND FINMIN GELBARD ON JUNE 27 WERE REPORTED REF A. WHEN REQUESTING TO SEE MINISTER, EMBASSY HAD ALSO SOUGHT DISCUSSION SAME SUBJECT WITH CENTRAL BANK PRESIDENT GOMEZ MORALES. HOWEVER, LATTER DELAYED GIVING APPOINTMENT TO EMBOFF UNTIL LATE FIRST WEEK JULY WHEN HE ESTABLISHED TIME FOR MEETING JULY 12. DURING INTERIM EMBASSY PREPARED MEMORANDUM COMMENT ON DRAFT BANK EXPROPRIATION LAW, ALONG LINES COMMENTS CONTAINED PARAS 1 AND 2 REF A AND SUPPLIED IT WITH OTHER MEMORANDA ON FOREIGN INVESTMENT LAW AND QUOTE LAW TO PROTECT LABOR AND NATIONAL INDUSTRY UNQUOTE TO PRESIDENT CHAMBER OF DEPUTIES WHO HAD PROMISED MAKE MATERIAL AVAILABLE TO CHAMBER WORKING GROUPS AND COMMISSIONS DEALING WITH THESE SUBJECTS.

2. ON JULY 12 CHARGE KREBS AND ECOM COUNSELOR HAD RELAXED 40 MINUTE MEETING WITH GOMEZ MORALES DURING WHICH DRAFT LAW ON FOREIGN BANK EXPROPRIATION TOGETHER WITH ECONOMIC AND POLITICAL BACKGROUND OF LIMITED OFFICIAL USE
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DRAFT LAW WERE DISCUSSED. IN RESPONSE QUESTIONS CONCERNING STATUS OF DRAFT LAW AND PROJECTED IMPLEMENTATION BY GOA, GOMEZ MORALES MADE FOLLOWING COMMENTS.

3. HE AND PEOPLE WHO SHARE SIMILAR VIEWS HAVE BEEN DISAPPOINTED IN LACK OF FORESIGHTEDNESS BY AMERICAN BANKS. HE HAD HAD OPPORTUNITY COMMENT TO FNCB AND CHASE PEOPLE ON PREVIOUS OCCASIONS (MANY MONTHS AGO) THAT IT HAD BEEN UNWISE OF THEM TO PURCHASE ARGENTINE BANKS. HE STATED THAT HE HAD LONG AGO INDICATED THAT THEIR ACTION WOULD BE SUSPECT BECAUSE WHILE ARGENTINE LAW AND REGULATION PREVENTED THEM FROM ESTABLISHING NEW BRANCHES (FNCB) OR ESTABLISHING A BRANCH WHICH COULD GROW THROUGH THE SETTING UP OF DOMESTIC BRANCHES (CHASE

MANHATTAN), THEY HAD TAKEN ADVANTAGE OF IMPROPER MANAGEMENT OF SITUATION BY UNPOPULAR MILITARY GOVERNMENT IN BUYING ARGENTINE BANKS. HIS CRITICISM OF CENTRAL BANK AUTHORITIES DURING PERIOD OF MILITARY GOVERNMENT WAS THAT, WHILE KEEPING DOOR BARRED TO EXPANSION FOREIGN BANKS, THEY HAD ALLOWED THEM TO ENTER THROUGH THE WINDOW. TO THIS COMMENT HE ADDED THAT THE AMERICAN AND SPANISH BANKS INVOLVED SHOULD CERTAINLY HAVE SEEN THE HANDWRITING ON THE WALL WHEN PERONIST AND RADICAL PARTY MEMBERS, WITH OTHERS, FORMED THE HORA DEL PUEBLO, A GROUPING OF EXTRAORDINARY POLITICAL STRENGTH, WHICH HAD AS A PART OF ITS PRIMARY PLATFORM THE RENATIONALIZATION OF ARGENTINE BANKS. HE ARGUED THAT THE BANKS WHICH HAD PURCHASED ARGENTINE INTERESTS SHOULD HAVE BEGUN IN 1971 OR 1972 TO REDUCE THEIR VULNERABILITY AND EXPOSURE BY REDUCING THEIR EQUITY OVER TIME. NOW, HE SAID, THERE ARE POLITICAL AND IDEOLOGICAL FACTORS AND GROUPINGS WHICH CANNOT BE DENIED. THIS IS SO MUCH SO THAT EVENTHOUGH THERE WAS A SHARP REACTION FROM THE SPANISH GOVERNMENT

AND SPANISH BANKING INTERESTS DURING THE PERIOD WHEN PRESIDENT CAMPORA VISITED SPAIN PRIOR TO RETURNING WITH PERON ON JUNE 20, ARGENTINE AUTHORITIES WERE NOT IN A POSITION TO INDICATE ANY POSSIBILITY OF BACKING AWAY FROM RENATIONALIZATION OF FOREIGN BANKS.

4. WHEN WE POINTED OUT THAT NEW LAW APPEARS ARBITRARY IN THAT IT AFFECTS ONLY BANKS PURCHASED BY FOREIGNERS SINCE 1966 WHILE LEAVING BANKS PURCHASED (BY FRENCH AND SPANISH INTERESTS) IN 1962 AND 1963 UNSCATHED, GOMEZ MORALES SHRUGGED AND SAID IT IS A PURELY POLITICAL MATTER THAT DIFFERENTIATES SHARPLY BETWEEN ACTIONS LIMITED OFFICIAL USE
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TAKEN BY RECENT MILITARY GOVERNMENTS AND THOSE TAKEN IN A PERIOD WHEN THERE WAS A CONSTITUTIONAL GOVERNMENT. HE REMARKED THAT THE OTHER BANKS WOULD FALL WITHIN THE NEW FOREIGN INVESTMENT LAW AND WILL EITHER HAVE TO BECOME QUOTE NATIONAL UNQUOTE FIRMS WITH FOREIGN INTERESTS HOLDING LESS THAN 20 PERCENT EQUITY OR PAY AN ESCALATED REMITTANCE TAX ON EARNINGS (SEE PARAS 11 THROUGH 13 OF REF C). (GOMEZ REMARKED THAT PROPOSED SCALE OF REMITTANCE TAX IS LOWER THAN BRAZIL'S.) WHEN WE COMMENTED THAT IT SEEMED TO BE MOST IN ARGENTINA'S INTEREST TO ALLOW THE AFFECTED BANKS TO CONTINUE OPERATIONS IN SOME FORM SO THAT THEIR BREAK WITH ARGENTINA WOULD NOT BE TOTAL AND THERE WOULD BE LESS DANGER THAT ARGENTINA WOULD BECOME ALIENATED FROM IMPORTANT SOURCES OF FOREIGN CAPITAL, GOMEZ

MORALES STATED THAT HE FELT SURE THAT THE ARRANGEMENTS WHICH THE GOA WILL MAKE FOR IMPLEMENTING THE NEW LAW WILL FINALLY BE SEEN BY THE FOREIGN INVESTORS TO BE EQUITABLE IF NOT GENEROUS. HE INDICATED THAT IN VALUING THE ASSETS OF THE AFFECTED BANKS, THE FOREIGN INVESTORS WOULD BE FULLY CONSULTED AND THEIR VIEWS GIVEN ALL DUE CONSIDERATION. HE HOPED FOR AND EXPECTED THAT THESE

NEGOTIATIONS WOULD BE AMICABLE. FURTHER, HE FELT THAT THE AFFECTED FOREIGN INVESTORS SHOULD CAREFULLY STUDY THE DESIRABILITY OF REMAINING INVESTED IN THE SAME BANKS WITH AN EQUITY APPROACHING 20 PERCENT. HE FELT THAT SUCH AN OPERATION WOULD BE PROFITABLE TO THE INVESTOR, AND BENEFICIAL TO THE INVESTOR AND ARGENTINA IN MAINTAINING LINKS THAT FACILITATE INTERNATIONAL TRADE. GOMEZ MORALES STATED THAT HE FELT THE AFFECTED FOREIGN BANKS WERE IN AN EXCELLENT POSITION TO BE AMONG THE PRINCIPAL APPLICANTS (FOR A 20 PERCENT SHARE) WHEN GOA MAKES THE EXPROPRIATED BANKS AVAILABLE THROUGH A PUBLIC BIDDING OPERATION. HE STATED CATEGORICALLY THAT THE PRESENT AUTHORITIES DO NOT INTEND TO ADD THESE BANKS TO THE STATE SYSTEM. MOREOVER, THOUGH HE IS AWARE THAT FRINGE GROUPS IN THE CONGRESS HAVE TAKEN A POSITION THAT THE STATE SHOULD NOT PURCHASE THE BANKS ASSETS BUT SHOULD INSTEAD FORCE THE FOREIGN INVESTORS TO SELL THEIR EQUITIES TO ARGENTINES BEFORE A DEADLINE UNDER THREAT OF CANCELAN OF OPERATING PERMITS, HE WAS CERTAIN THAT A LARGE MAJORITY OF BOTH PERONIST AND RADICAL PARTY FORCES WILL BACK THE GOVERNMENT'S INTENTION TO ESTABLISH A FAIR

VALUE FOR THE BANK'S ASSETS, TO PURCHASE THESE ASSETS AND THEN RESELL THEM TO THE PRIVATE SECTOR.

5. IN SHORT ADDITIONAL DISCUSSION ON DRAFT FOREIGN INVESTMENT LAW,
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GOMEZ MORALES INDICATED HE AND OTHERS WOULD HAVE PREFERRED TO SEE A MORE LIBERAL VERSION. HOWEVER MORE RADICAL POSITIONS HAVE TO BE TAKEN INTO ACCOUNT AND WERE REFLECTED INTO THE PRESENT DRAFT. HE COMMENTED THAT IF PERON HAD HAD AN OPPORTUNITY TO MAKE A PERSONAL INPUT INTO THE DRAFT, IT WOULD HAVE BEEN MORE MODERATE. WE NOTED THAT THE FOREIGN INVESTMENT LAW IS NOT BEING RUSHED THROUGH CONGRESS, THAT THERE APPEARS TO BE SOME SERIOUS DISCUSSION GOING ON IN LEGISLATIVE BODIES CONCERNING ITS MANY FACETS, AND INQUIRED WHETHER THERE IS NOT A CHANCE THAT THE FINAL LAW MAY BE MORE MODERATE. GOMEZ MORALES SHOWED WILLINGNESS TO SPECULATE ON THIS MATTER THOUGH HE NOTED A STATEMENT BY PERON JULY 10 THAT FOREIGN INVESTMENT IS A SKITTISH ELEMENT WHICH MUST BE ENCOURAGED IF IT IS TO VENTURE INTO ARGENTINA. GOMEZ MORAL

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